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C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 000946

SIPDIS

DEPARTMENT FOR EUR/NCE JAMIE LAMORE, PASS TO NSC ADAM
STERLING

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TAGS: [ENRG](#) [ECON](#) [EPET](#) [PGOV](#) [HU](#)
SUBJECT: SCENESETTER FOR SECRETARY RICE: FOREIGN MINISTER
GONCZ VISIT

Classified By: P/E Counselor Eric Gaudiosi, reasons 1.4 (b, d)

¶1. (SBU) Foreign Minister Goncz arrives in Washington after a banner week for the GOH. With the approval of the last in a series of agreements needed to join our visa-waiver program and final steps toward a deal on the Papa airbase, Budapest can celebrate the achievement of two longstanding goals, and so can we. Both will contribute to our bilateral relationship, but issues remain, chief among them our concern about Hungary,s position on energy security.

¶2. (SBU) The Hungarian Parliament last week broke a months-long stalemate to establish a five-party Nabucco Committee, which will keep a spotlight on Nabucco while giving opposition parties the right to review documents for competing projects such as South Stream. However, government statements on the pipeline issue remain mixed and show little appetite to go beyond a very measured commitment to both projects. In a recent press interview highlighting our bilateral relationship, Goncz essentially said the US has the luxury of taking a strategic view of energy security because of its geographic distance from Russia, but countries like Hungary must take a more tactical approach. Prime Minister Gyurcsany, after meeting last week with EU Commissioner Barroso, echoed Barroso,s stated position that South Stream does not endanger Nabucco and that both pipelines are necessary.

¶3. (SBU) Opposition party leaders and a number of prominent local energy policy analysts remain ardent supporters of the Nabucco pipeline. They are actively making the case that Nabucco should be &the8 energy priority for Hungary rather than just &a8 priority alongside alternatives such as South Stream. They understand that while European gas demand may eventually justify the need for both pipelines, the sequencing of these projects matters, and forward movement on South Stream comes at Nabucco,s expense.

¶4. (C) Hungary,s Nabucco Ambassador, Mihaly Bayer, who will accompany Goncz on a portion of her trip, has shuttled tirelessly among Brussels, the Caspian suppliers and the European transit countries to keep the project on track. However, Brussels, tepid support and the Nabucco countries, inability to finalize an Intergovernmental Agreement (IGA) have clearly compounded the difficulties of his job. His frustration was evident in a September 24 meeting with Ambassador Foley when he attempted to clarify recent press which quoted him saying that the international financial climate would cause a six-month delay in the Nabucco project: &I didn,t say there would be a delay. I was asked if there would be a delay and I said I would be lucky if that were our only problem.,8

¶5. (SBU) Bayer remains hopeful that the Nabucco participants can finalize an IGA by the end of the year, which would then allow the companies comprising the Nabucco consortium to begin lining up financing for the project. Encouragingly, the European Bank for Reconstruction and Development, the European Investment Bank, and the World Bank have expressed interest in participating. A completed IGA would also lend considerable weight to the Nabucco Summit that the GOH will be hosting January 27-29.

¶6. (C) But progress on South Stream appears to be poised for another step forward. The local press carried stories this week of negotiations in Budapest between Gazprom and the Hungarian Development Bank over the feasibility study for the Hungarian segment of the pipeline. Bayer told Ambassador Foley that he has heard that the feasibility study is facing delays, but another Embassy contact on the Prime Minister's advisory board recently told an Embassy officer that there would be a &major announcement8 concerning South Stream in December, which would represent another unpleasant surprise in the run-up to the Budapest Conference.

¶7. (C) COMMENT AND ACTION REQUEST: The opposition parties, strong support of Nabucco and criticism of the government's position have allowed the government to cast the debate as an internal political issue and our engagement as interference. We urge Washington officials to stress that the quest for alternatives to Russian energy supplies and Russian-dominated supply routes is a strategic, Euro-Atlantic concern. Further steps on South Stream will undermine the Nabucco Summit that the GOH keeps telling us is a key priority. The Hungarians have heard our message that further movement on South Stream

BUDAPEST 00000946 002 OF 002

would be unacceptable in this light, but persist in believing they are being held to a higher standard than other allies. While she is in Washington, Foreign Minister Goncz needs to hear this message again and to know that other South Stream participants are hearing it as well.
Foley